

Reeths-Puffer Schools

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2008

Reeths-Puffer Schools

TABLE OF CONTENTS

Management's Discussion and Analysis	i - xi
Independent Auditors' Report.....	1
Basic Financial Statements	
District-wide Financial Statements	
Statement of Net Assets (Deficit)	3
Statement of Activities.....	4
Fund Financial Statements	
Governmental Funds	
Balance Sheet	5
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets (Deficit)	6
Statement of Revenues, Expenditures and Changes in Fund Balances.....	7
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	8
Statement of Fiduciary Assets and Liabilities.....	9
Notes to Financial Statements	10
Required Supplementary Information	
Budgetary Comparison Schedule—General Fund	28
Statistical Data (unaudited)	
Historical Property Valuations	30
Major Taxpayers.....	31
School District Tax Rates	32
State Aid Summary—Funds From State Sources (including categoricals).....	33
Operating Tax Levies and Collections	34
Labor Force	35
Pension Fund	36
Debt Statement—Direct Debt.....	37
School Bond Loan Fund and School Loan Revolving Fund Programs.....	38
School Enrollment	39

Reeths-Puffer Schools

Management's Discussion and Analysis

Fiscal Year Ended June 30, 2008

Reeths-Puffer Schools' management discussion and analysis report is intended to assist the reader in focusing on significant financial issues, provide an overview of the District's financial activity and identify changes in its financial position. This section of the financial statements also identifies all material deviations from the financial plan (initial budgets) and discloses individual fund issues and concerns that exist at the close of the fiscal year.

This information is required by GASB 34 (Governmental Accounting Standards Board's Statement No. 34). GASB 34 requires the presentation of two basic types of financial statements; namely, District-wide Financial Statements and Fund Financial Statements.

District-wide Financial Statements

The district-wide statements provide a financial perspective of the District as a whole. These statements use the "full accrual" basis of accounting. There are two (2) district-wide statements: the Statement of Net Assets and the Statement of Activities.

The Statement of Net Assets combines and consolidates governmental funds' current financial resources (short-term expendable resources) with capital assets and long-term obligations, regardless if they are currently available or not.

The Statement of Activities accounts for current year revenues and expenses regardless of when cash is received or paid (full accrual accounting). The intent of this statement is to summarize and simplify the information relative to funding received and expenditures made for various district services.

Fund Financial Statements

Fund statements are reported under the "modified accrual" method of accounting. Under this basis of accounting, revenues are recorded when received, except where they are measurable and available within sixty (60) days of the close of the fiscal year. Expenditures are accounted for in the period that goods and services are used in school programs; therefore, major payments during the summer for payrolls and benefits belonging to last year's instructional program are expensed on June 30th. In addition, capital asset purchases are expensed when placed in service and are not shown as assets in these statements. Debt payments made in the fiscal year are shown as expenditures in the current year and future debt obligations are not recorded here.

Fund types include the General Fund, Special Revenue Funds, Debt Retirement Fund, Capital Projects Funds and the Agency Funds. The General Fund is used to show the operational financial activities of the district for the fiscal year. The primary funding sources for the General

Reeths-Puffer Schools

Management's Discussion and Analysis

Fiscal Year Ended June 30, 2008

Fund are from local property taxes, state foundation grant per student, state categorical funding for specific programs, federal grants and inter-governmental transfers. Transactions dealing with the school food service and athletics programs are recorded in the School Service Fund accounts. The Debt Retirement Funds are used to record the debt payments of principal and interest amounts. Local property tax funds are used to pay the majority of debt, with any unmet needs being covered by the Michigan School Bond Loan program and Michigan School Loan Revolving Fund. The Capital Projects Funds are used to record the costs associated with the acquisition of land, construction or improvement of school facilities, and for equipment purchases in excess of \$5,000. The Agency Funds, known as internal activity funds, are held in a trustee capacity for various student or school related groups' financial transactions. Monies in these funds are not available for general school use.

Statement of Net Asset (Deficiency)

<u>Assets</u>	<u>6/30/08</u>	<u>6/30/07</u>
Current Assets	\$13,869,955	\$14,594,647
Capital Assets (cost less depreciation)	46,765,062	47,737,738
Other Long-term Assets	<u>1,315,760</u>	<u>1,370,867</u>
Net District Assets	\$61,950,777	\$63,703,252
 <u>Liabilities</u>		
Current Liabilities	\$12,016,987	\$12,807,099
Long-term Liabilities	<u>72,385,203</u>	<u>73,821,584</u>
Total Liabilities	\$84,402,190	\$86,628,683
 <u>Net Asset (Deficiency)</u>		
Invested in Capital Assets (net of debt)	(\$13,722,689)	(\$14,527,582)
Restricted Funds	958,541	752,739
Unrestricted Funds	<u>(\$9,687,265)</u>	<u>(9,150,588)</u>
Net Asset (Deficiency)	(\$22,451,413)	(\$22,925,431)

The above stated net asset deficiency is the direct result of the district using capital appreciation bonds and the Michigan School Bond Loan and School Loan Revolving Funds to finance major facility construction projects over the past several years. Under these funding programs, the

Reeths-Puffer Schools
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2008

payments against principal and interest costs are delayed to some point in the future; therefore, interest costs compound due to their non-payment.

The negative impact of funding school projects by utilizing these particular funding methods is further increased by the fact that the facility values associated with the borrowed funds are decreasing each year due to depreciation.

The amount of the negative District net asset value (asset deficiency) will be affected each year until payments against these debts are activated starting in 2012. These particular funding programs have been available for use by public schools where the community's tax base is insufficient to support the immediate costs of debt associated with meeting current facility needs. The particular capital appreciation bonds the district has are not "callable" for refinancing at a lower rate for several years into the future.

Comments on Major Changes to Net Asset (Deficiencies)

Current Assets - Decreased due to the paying down of current liabilities

Capital Assets - Reduced by depreciation.

Current Liabilities - Decreased due to pay down of current liabilities.

Long-term Liabilities - Decreased due to principal payment on debt

Continued on next page with Statement of Activities.

**Reeths-Puffer Schools
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2008**

Statement of Activities

<u>DISTRICT-WIDE REVENUES</u>	<u>6/30/08</u>	<u>6/30/07</u>
Program Revenues		
Charges for services	\$ 830,396	\$ 892,931
Operating grants	5,265,308	5,462,459
General Revenues		
Property taxes	9,067,139	8,340,700
Unrestricted grants	26,904,535	27,427,034
Other revenues	<u>283,763</u>	<u>240,971</u>
Total Revenues	\$42,351,141	\$42,364,095
<u>DISTRICT-WIDE EXPENDITURES</u>		
Instruction	\$22,605,530	\$21,104,919
Support services	13,027,303	12,817,105
Community services	24,855	41,761
Food service	1,260,488	1,125,776
Athletics	845,585	753,139
Interest on long-term debt	4,058,254	4,142,323
Unallocated depreciation & amortization	<u>55,107</u>	<u>1,368,306</u>
Total Expenditures	<u>\$41,877,122</u>	<u>\$41,353,329</u>
<u>TOTAL NET ASSET CHANGES</u>	\$ 474,019	\$ 1,010,766
<u>NET ASSET DEFICIENCIES OF PRIOR YEARS</u>	(\$22,925,432)	(\$23,936,198)
<u>NET ASSET DEFICIENCY</u>	(\$22,451,413)	(\$22,925,432)

Reeths-Puffer Schools Management's Discussion and Analysis Fiscal Year Ended June 30, 2008

Comments on Changes in Net Asset Deficiency

The change reflected above is a reduction of deficiency of \$474,019, or approximately 0.8% of total assets; therefore, this would indicate that financial conditions were stable and that no significant fiscal issues are of concern to management. The issues of state funding for public education and the continued trend of reduced student enrollments remain as concerns as we are making significant operating budget cuts annually to remain fiscally responsible.

Net Capital Asset Values

	Balance <u>7/1/07</u>	<u>Additions</u>	<u>Deductions</u>	Change in Accumulated <u>Depreciation</u>	Balance <u>6/30/08</u>
Vehicles	\$ 745,619	\$241,991	\$ 153,032	\$ 10,934	\$ 823,644
Facilities	44,811,482	-	45,000	971,539	43,794,943
Equipment	1,246,467	67,429	-	149,058	1,164,838
Land Improv.	-	47,467	-	-	47,467
Land	934,170	-	-	-	<u>934,170</u>
Net Value of Capital Assets					<u>\$ 46,765,062</u>

Changes in vehicle balance are the result of the School District disposing of two busses and purchasing two additional busses. Facilities deductions resulted from the removal of the value of a building previously sold. Increases in equipment resulted from the purchase of Dell servers, boiler for the food service program, and capitalization of copier leases. Land Improvements were for the paving of a parking lot and additional sidewalks.

**Reeths-Puffer Schools
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2008**

Debt Obligations

<u>Balance</u> <u>7/1/07</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/08</u>	<u>Due within</u> <u>one year</u>
\$76,783,483	\$ 1,856,184	\$ 3,054,360	\$75,585,307	\$3,200,104

In the above schedule the additions represents \$871,614 of accrued interest on capital appreciation bonds, \$486,205 of accrued interest on the School Bond Loan Fund, \$81,684 of accrued interest on the School Loan Revolving Loan Fund and \$68,649 of new draws from the School Loan Revolving Fund. The new draw from the School Loan Revolving Fund was a scheduled draw.

***Budgetary Highlights
2007-08 General Fund Operational Budget
Comparison of Budget to Actual Results***

	<u>Initial Budget</u>	<u>Amended Budget</u>	<u>Actual Result</u>
<u>REVENUES</u>			
Local	\$ 4,080,339	\$ 4,136,298	\$ 4,029,076
State	26,670,837	27,007,052	27,143,472
Federal	2,258,483	2,155,586	2,013,561
Transfers and Other	<u>1,868,500</u>	<u>2,113,121</u>	<u>2,311,304</u>
Totals	\$34,878,159	\$35,412,057	\$35,497,413
	Variance from Initial Budget	+1.8%	
	Variance from Amended Budget	+0.2%	

EXPENDITURES

Instruction	\$21,395,696	\$21,797,188	\$21,644,429
Instructional Support	4,070,632	4,181,184	4,112,384
Administration	3,147,666	3,143,238	3,265,666
Maintenance	2,898,440	2,737,283	2,808,148
Transportation	1,659,205	1,651,396	1,620,304
Other costs	<u>1,523,180</u>	<u>1,854,627</u>	<u>1,873,785</u>
Totals	\$34,694,819	\$35,364,916	\$35,324,716
	Variance from Initial Budget	+1.8%	
	Variance from Amended Budget	-0.1%	

**Reeths-Puffer Schools
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2008**

<u>RESERVE CHANGE</u>	\$ 183,340	\$ 47,141	\$ 172,697
-----------------------	------------	-----------	------------

General Fund Budgetary Highlights

When compared in total, the variances between initial budget, final budget and actual results are minimal considering all the unknowns that exist when the budget is prepared in March of each year. These unknowns consist of such items as student count, employee contracts, state aid, staffing, and tax appeals.

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. As a matter of practice the District amends its budget periodically. These revisions are made in order to deal with changes in revenues and expenditures.

One of the changes often impacting the District's budget is the revenue received from State of Michigan as the per pupil foundation allowance. In the recent past, schools do not know how much that foundation grant is going to be until well after July 1. It was not until November 8, 2007 when the foundation grant for the 2007-2008 fiscal year was established by the State of Michigan. The foundation grant for the District increased by \$119 per pupil over the amount originally budgeted. The foundation grant increase combined with the District having a decrease in enrollment over the original projections resulted in a net increase from State revenue of approximately \$336,000.

During the year, the District made additions to its instruction to assist students with their reading skills. Diesel fuel costs also had a negative impact on the District's budget.

The business function is over budget by \$105,634. Additional local revenue, transfers, and other incoming transactions are directly related to and offset \$74,000 of the overage. Instructional savings of \$16,000 was generated through a new copier lease arrangement for copiers used in the building. The cost of the maintenance portion of the lease was charged to the business area, and is offset by the savings in instructional expense.

Maintenance was over budget by \$70,865. A reallocation of a credit to be consistent with the Michigan Public School Accounting Manual accounted for \$32,000 of the overage. The expense was increased to the full amount of the expenditure and the credit was recognized as local revenue. The allocation happened after the last budget amendment.

Reeths-Puffer Schools
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2008

General Fund Year-to-Year Comparison of Actual Results

	<u>Current Year</u>	<u>Prior Year</u>	<u>Difference</u>
<u>REVENUES</u>			
Local	\$ 4,029,076	\$ 3,616,414	\$ 412,662
State	27,143,472	27,658,533	(515,061)
Federal	2,013,561	2,367,797	(354,236)
Transfers	<u>2,311,304</u>	<u>2,247,703</u>	<u>63,601</u>
Totals	\$35,497,413	\$35,890,447	\$ (393,034)
<u>EXPENDITURES</u>			
Instruction	\$21,644,429	\$21,230,117	414,312
Instructional Support	4,112,384	4,245,463	(133,079)
Administration	3,265,666	3,132,365	133,301
Maintenance	2,808,148	2,886,744	(78,596)
Transportation	1,620,304	1,632,238	(11,934)
Other costs	<u>1,873,785</u>	<u>1,769,273</u>	<u>104,512</u>
Totals	\$35,324,716	\$34,896,200	\$428,516

General Fund Revenue and Other Financing by Source

State Sources	\$27,143,472	76.5%
Local Sources	4,029,076	11.3%
Federal Sources	2,013,561	5.7%
Other sources	<u>2,311,304</u>	6.5%
Total Revenue	\$35,497,413	100.0%

As indicated above, funding from the State of Michigan is the District's largest source of revenue. Thus, the financial stability of the District rests primarily with the economic health of the State of Michigan.

**Reeths-Puffer Schools
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2008**

General Fund Expenditures by Function

Instruction and Instructional Support	\$25,756,813	72.9%
Maintenance	2,808,148	7.9%
Business & Administration	3,265,666	9.3%
Transportation	1,620,304	4.6%
Other	<u>1,873,785</u>	5.3%
Total Expenditures	\$35,324,716	100.0%

As indicated above the District spends 72.9% of its budget on direct classroom instruction (\$21,644,429) and instructional support services (\$4,112,384). It should also be noted that the District spends over 4% of its budget (\$1,620,304) or \$396 per pupil on transportation of its students.

1995 Debt Service Year -to-Year Comparison of Actual Results

	Current Year	Prior Year	Difference
Beginning Balance	\$(1,430,043)	\$(1,564,326)	\$(134,283)
Revenues	\$ 206,540	\$ 231,003	\$ 24,463
Expenditures	\$ 268,735	\$ 96,720	\$(172,015)
Ending Balance	\$(1,492,238)	\$(1,430,043)	\$ 62,195

2005 Debt Service Year-to-Year Comparison of Actual Results

	Current Year	Prior Year	Difference
Beginning Balance	\$ 3,392,172	\$ 3,424,381	\$ 32,209
Revenues	\$ 1,753,474	\$ 1,467,990	\$(285,484)
Expenditures	\$ 1,514,148	\$ 1,500,199	\$ (13,949)
Ending Balance	\$ 3,631,498	\$ 3,392,172	\$(239,326)

Reeths-Puffer Schools Management's Discussion and Analysis Fiscal Year Ended June 30, 2008

The ending balances of each of these funds have been impacted by refunding Issues and prior year adjustments. The District will change the allocation of property tax collected during the 2008/2009 fiscal year to resolve these balances and reduce the need to borrow from the School Revolving Loan Fund.

2007-08 Other Governmental Funds

	<u>Food Service</u>	<u>Athletics</u>	<u>Combined Debt</u>	<u>Capital Improv.</u>	<u>Combined</u>
Beginning Balance	\$ 160,876	\$ 40,684	\$ (769,870)	\$481,396	\$ (86,914)
Revenues	1,251,764	775,050	3,584,344	322,808	5,933,966
Expenditures	1,263,849	765,595	3,564,967	395,627	5,990,038
Ending Balance	148,791	50,139	(750,493)	408,577	(142,986)

The Food Service Fund ended the year with expenses exceeding revenues due to the capital asset purchase of a new point-of-sale computer program.

The Athletic Fund increased its fund balance by \$9,455. The budgeted increase was \$6,900.

The balances in the debt funds have been impacted by refunding issues and prior year adjustments. The district will change the allocation of property tax collected during the 2008-2009 year to resolve these balances and reduce the need to borrow from the School Revolving Loan Fund.

The capital improvement fund revenue came primarily from the General Fund transfers to the Capital Improvement Fund. Expenditures were for bus purchases and various building improvements.

Reeths-Puffer Schools Management's Discussion and Analysis Fiscal Year Ended June 30, 2008

Currently known facts, decisions, and conditions affecting the 2008/09 School Year

Contract Negotiations

The District has three bargaining units with contracts. Two of those units (Maintenance/food service/transportation and the Educational Support Personnel Association) have contracts which expired at the end of the 2007/08 fiscal year. The certified staffs' (teachers) contract will expire on August 31, 2010.

Initial General Fund Budget

The current adopted budget for the 2008/09 fiscal year has a projected use of fund balance of approximately \$100,000. The budget was based on a foundation base of \$7,306 and a decline in enrollment of 80 students. This decline is a direct result of declining birth rates in Muskegon County.

At this time these projections are the District's best estimates based on Michigan's current economic condition.

Requests for Information

This financial report is designed to provide the District's citizens, taxpayers, parents, students, investors, and creditors with a general overview of the District's finances, and to show how the District is accountable for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to Frank Verhoven, Assistant Superintendent of Finance and Operations, Reeths-Puffer Schools, 991 W. Giles Road, Muskegon, Michigan 49445, telephone number 231-719-3110.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

October 23, 2008

Board of Education
Reeths-Puffer Schools
Muskegon, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Reeths-Puffer Schools (the School District), as of and for the year ended June 30, 2008, which collectively comprise the Schools District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Reeths-Puffer Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Reeths-Puffer Schools, as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated October 23, 2008, on our consideration of Reeths-Puffer Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

BRICKLEY DELONG

Board of Education
October 23, 2008
Page 2

The management's discussion and analysis and budgetary comparison information on pages i - xi and page 28 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The statistical data included on pages 29 - 38 has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

Brickley DeLong, PLC

Reeths-Puffer Schools
STATEMENT OF NET ASSETS (DEFICIT)
June 30, 2008

	Governmental activities
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 7,037,294
Receivables	8,106
Due from other governmental units	6,720,479
Inventories	40,227
Prepaid items	<u>63,849</u>
Total current assets	13,869,955
NONCURRENT ASSETS	
Capital assets, net	
Nondepreciable	934,170
Depreciable	45,830,892
Bond issuance costs, net	913,288
Note receivable	<u>402,472</u>
Total noncurrent assets	<u>48,080,822</u>
Total assets	61,950,777
LIABILITIES AND NET ASSETS (DEFICIT)	
CURRENT LIABILITIES	
State aid loan	4,100,000
Accounts payable and accrued liabilities	4,367,461
Due to other governmental units	317,136
Deferred revenue	32,286
Bonds and other obligations, due within one year	<u>3,200,104</u>
Total current liabilities	12,016,987
NONCURRENT LIABILITIES	
Bonds and other obligations, less amounts due within one year	<u>72,385,203</u>
Total liabilities	<u>84,402,190</u>
NET ASSETS (DEFICIT)	
Invested in capital assets, net of related debt	(13,722,689)
Restricted for debt service	958,541
Unrestricted	<u>(9,687,265)</u>
Total net assets (deficit)	<u>\$ (22,451,413)</u>

The accompanying notes are an integral part of this statement.

Reeths-Puffer Schools
STATEMENT OF ACTIVITIES
For the year ended June 30, 2008

<i>Functions/Programs</i>	Expenses	Program Revenue		Net (Expense)
		Charges for services	Operating grants and contributions	Revenue and Changes in Net Assets
Governmental activities				Governmental activities
Instruction	\$ 22,605,530	\$ 1,385	\$ 1,594,414	\$ (21,009,731)
Support services	13,027,303	105,825	2,955,220	(9,966,258)
Community services	24,855	-	21,529	(3,326)
Food services	1,260,488	555,131	694,145	(11,212)
Athletics	845,585	168,055	-	(677,530)
Interest on long-term debt	4,058,254	-	-	(4,058,254)
Unallocated amortization	55,107	-	-	(55,107)
Total governmental activities	<u>\$ 41,877,122</u>	<u>\$ 830,396</u>	<u>\$ 5,265,308</u>	(35,781,418)
General revenues				
Property taxes levied for				
General purposes				3,679,392
Debt service				5,387,747
Grants and contributions not restricted to specific programs				26,904,535
Investment earnings				185,157
Miscellaneous				<u>98,606</u>
Total general revenues				<u>36,255,437</u>
Change in net assets (deficit)				474,019
Net assets (deficit) at July 1, 2007				<u>(22,925,432)</u>
Net assets (deficit) at June 30, 2008				<u>\$ (22,451,413)</u>

The accompanying notes are an integral part of this statement.

Reeths-Puffer Schools

BALANCE SHEET

Governmental Funds

June 30, 2008

	General Fund	1995 Debt Service	2005 Debt Service	Other governmental funds	Total governmental funds
ASSETS					
Cash and cash equivalents	\$ 5,101,894	\$ 72,054	\$ 326,265	\$ 1,537,081	\$ 7,037,294
Receivables	8,106	-	-	-	8,106
Due from other governmental units	6,720,479	-	-	-	6,720,479
Due from other funds	293,434	30,105	3,401,983	2,074,125	5,799,647
Inventories	-	-	-	40,227	40,227
Prepaid items	63,849	-	-	-	63,849
Total assets	<u>\$ 12,187,762</u>	<u>\$ 102,159</u>	<u>\$ 3,728,248</u>	<u>\$ 3,651,433</u>	<u>\$ 19,669,602</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
State aid loan	\$ 4,100,000	\$ -	\$ -	\$ -	\$ 4,100,000
Accounts payable	251,214	-	-	24,409	275,623
Accrued liabilities	3,661,838	-	-	-	3,661,838
Due to other governmental units	317,136	-	-	-	317,136
Due to other funds	348,953	1,594,622	96,750	3,759,322	5,799,647
Deferred revenue	21,598	-	-	10,688	32,286
Total liabilities	8,700,739	1,594,622	96,750	3,794,419	14,186,530
Fund balances					
Reserved					
Inventories	-	-	-	40,227	40,227
Prepaid items	63,849	-	-	-	63,849
Debt service	-	(1,492,463)	3,631,498	(750,493)	1,388,542
Unreserved					
Undesignated					
General Fund	3,423,174	-	-	-	3,423,174
School service	-	-	-	158,703	158,703
Capital projects	-	-	-	408,577	408,577
Total fund balances (deficit)	<u>3,487,023</u>	<u>(1,492,463)</u>	<u>3,631,498</u>	<u>(142,986)</u>	<u>5,483,072</u>
Total liabilities and fund balances	<u>\$ 12,187,762</u>	<u>\$ 102,159</u>	<u>\$ 3,728,248</u>	<u>\$ 3,651,433</u>	<u>\$ 19,669,602</u>

The accompanying notes are an integral part of this statement.

Reeths-Puffer Schools
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS (DEFICIT)
June 30, 2008

Total fund balance—governmental funds	\$	5,483,072
---------------------------------------	----	-----------

Amounts reported for governmental activities in the Statement of Net Assets (Deficit)
are different because:

Capital assets used in governmental activities are not current financial resources and
are not reported in the governmental funds.

Cost of capital assets	\$ 62,493,554	
Accumulated depreciation	<u>(15,728,492)</u>	46,765,062

Bond issuance costs are not capitalized and amortized in the governmental funds.

Bond issuance costs	1,211,302	
Accumulated amortization	<u>(298,014)</u>	913,288

Other long-term note receivable in governmental activities is not reported in the
governmental funds.

402,472

Accrued interest in governmental activities is not reported in the governmental funds.

(430,000)

Long-term obligations in governmental activities are not due and payable in the current
period and are not reported in the governmental funds.

Bonds and notes payable	(74,983,103)	
Early retirement incentives	(399,100)	
Compensated absences	<u>(203,104)</u>	<u>(75,585,307)</u>

Net assets (deficit) of governmental activities in the Statement of Net Assets (Deficit)	\$	<u><u>(22,451,413)</u></u>
--	----	----------------------------

The accompanying notes are an integral part of this statement.

Reeths-Puffer Schools
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT)
Governmental Funds
For the year ended June 30, 2008

	General Fund	1995 Debt Service	2005 Debt Service	Other governmental funds	Total governmental funds
REVENUES					
Local sources					
Property taxes	\$ 3,679,392	\$ 170,580	\$ 1,684,556	\$ 3,532,611	\$ 9,067,139
Investment earnings	137,641	2,592	7,518	37,406	185,157
Fees and charges	121,459	-	-	716,027	837,486
Other	90,584	-	-	7,159	97,743
Total local sources	4,029,076	173,172	1,692,074	4,293,203	10,187,525
State sources	27,143,472	-	-	62,395	27,205,867
Federal revenues	2,013,561	-	-	631,750	2,645,311
Total revenues	33,186,109	173,172	1,692,074	4,987,348	40,038,703
EXPENDITURES					
Instruction	21,644,429	-	-	-	21,644,429
Support services	12,552,598	-	-	-	12,552,598
Community services	24,855	-	-	-	24,855
Food services	-	-	-	1,263,849	1,263,849
Athletics	-	-	-	765,595	765,595
Debt service					
Principal	-	50,000	1,080,000	1,579,082	2,709,082
Interest and other charges	-	218,735	434,148	1,985,885	2,638,768
Capital projects	-	-	-	395,627	395,627
Total expenditures	34,221,882	268,735	1,514,148	5,990,038	41,994,803
Excess (deficiency) of revenues over (under) expenditures	(1,035,773)	(95,563)	177,926	(1,002,690)	(1,956,100)
OTHER FINANCING SOURCES (USES)					
Transfers from other governmental units and other transactions	2,311,304	-	-	-	2,311,304
Loan proceeds	-	33,368	61,400	21,618	116,386
Transfers in	-	-	-	925,000	925,000
Transfers out	(925,000)	-	-	-	(925,000)
Transfers to other governmental units and other transactions	(177,834)	(225)	-	-	(178,059)
Total other financing sources (uses)	1,208,470	33,143	61,400	946,618	2,249,631
Net change in fund balances (deficit)	172,697	(62,420)	239,326	(56,072)	293,531
Fund balances (deficit) at July 1, 2007	3,314,326	(1,430,043)	3,392,172	(86,914)	5,189,541
Fund balances (deficit) at June 30, 2008	<u>\$ 3,487,023</u>	<u>\$ (1,492,463)</u>	<u>\$ 3,631,498</u>	<u>\$ (142,986)</u>	<u>\$ 5,483,072</u>

The accompanying notes are an integral part of this statement.

Reeths-Puffer Schools
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

For the year ended June 30, 2008

Net change in fund balances—total governmental funds	\$	293,531
--	----	---------

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities these costs are depreciated and amortized over their estimated useful lives, respectively.

Depreciation and amortization expense	\$ (1,380,980)	
Capital outlay and bond issuance costs	<u>356,887</u>	(1,024,093)

Governmental funds report the entire proceeds from the sale of capital assets as revenue, but the Statement of Activities reports only the gain or loss on the sale of capital assets.	(3,690)
--	---------

Debt proceeds are other financing sources in the governmental funds, but the proceeds increase long-term obligations in the Statement of Net Assets (Deficit).	(1,551,065)
--	-------------

Repayment of principal on long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term obligations in the Statement of Net Assets (Deficit).	2,747,203
--	-----------

Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until paid.	10,095
--	--------

Compensated absences and early retirement incentives are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.	<u>2,038</u>
--	--------------

Change in net assets (deficit) of governmental activities	\$	<u><u>474,019</u></u>
---	----	-----------------------

The accompanying notes are an integral part of this statement.

Reeths-Puffer Schools
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Funds
June 30, 2008

	<u>Agency funds</u>
ASSETS	
Cash and cash equivalents	\$ <u><u>199,328</u></u>
LIABILITIES	
Deposits held for others	\$ <u><u>199,328</u></u>

The accompanying notes are an integral part of this statement.

Reeths-Puffer Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Reeths-Puffer Schools (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

Reporting Entity

The School District is governed by an elected seven-member Board of Education (Board), which has responsibility and control over all activities related to public school education within the School District. The School District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

District-wide and Fund Financial Statements

District-wide Financial Statements – The primary focus of district-wide financial statements is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities. The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. The district-wide financial statements categorize primary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

In the district-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis and (b) is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School District first utilizes restricted resources to finance qualifying activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

The district-wide Statement of Activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general revenues (property taxes, certain intergovernmental revenues and charges, etc.). The Statement of Activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The School District does not allocate indirect costs.

Reeths-Puffer Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

District-wide and Fund Financial Statements—Continued

Fund financial statements – Fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental funds – Governmental funds are those funds through which most School District functions typically are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School District reports the following major governmental fund:

- The *General Fund* is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.
- The *1995 Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest of the 1995 general obligation debt.
- The *2005 Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest of the 2005 general obligation debt.

The other nonmajor governmental funds are reported within the following types:

- The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The School District accounts for its food service and athletic activities in the school service special revenue funds.
- The *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- The *capital projects funds* account for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

Fiduciary funds – Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the School District under the terms of a formal trust agreement. Fiduciary funds are not included in the district-wide statements.

- The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the School District holds for others in an agency capacity (primarily student activities).

Reeths-Puffer Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The district-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants, categorical aids and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the school districts. For the year ended June 30, 2008, the foundation allowance was based on pupil membership counts taken in February and September of 2007.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2007 to August 2008. Thus, the unpaid portion at June 30, 2008 is reported as due from other governmental units.

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Reeths-Puffer Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies

Deposit and Investments

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

The School District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School District intends to hold the investment until maturity.

State statutes authorize the School District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School District is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School District's deposits and investments are in accordance with statutory authority.

Interfund Receivables and Payables

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". The School District had no advances between funds.

Property Taxes

Property taxes levied by the School District are collected by various municipalities and periodically remitted to the School District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2008, the School District levied the following amounts per \$1,000 of taxable valuation:

<u>Fund</u>	<u>Mills</u>
General Fund—Non-homestead	18.00
Debt service fund—Homestead and non-homestead	8.37

Reeths-Puffer Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Inventories

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories are expendable supplies held for consumption and are recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include bond proceeds to be used for capital construction.

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the School District as assets with an initial cost of more than \$5,000 and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The School District does not have infrastructure-type assets.

Depreciation is provided on the straight-line basis over the following useful lives:

Building and improvements	20-50 years
Land improvements	20 years
Buses and other vehicles	10 years
Furniture and other equipment	10-20 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

Compensated Absences

The liability for compensated absences reported in the district-wide statement consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

For fund financial statements, no compensated absence liability is reported for current employees and a compensated absence liability is reported for terminated employees only when the termination date is on or before year end.

Reeths-Puffer Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Early Retirement Incentives

For district-wide financial statements, the liability for early retirement incentives is reported when legally enforceable. For fund financial statements, the liability for early retirement incentives is reported either 1) on the due date when there is a specified due date or 2) on the retirement date if it is before year end, when there is not a specified legally enforceable due date.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On fund financial statements, receivables that will be collected after the available period are reported as deferred revenue.

Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets In District-wide Financial Statements

Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. Pursuant to the Michigan School Accounting Manual Referent Group guidance for Michigan public school districts, School Bond Loan Fund and School Loan Revolving Fund debt is not considered to be capital related debt.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

Reeths-Puffer Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Fund Equity In Fund Financial Statements

The School District reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, prepaid items, deferred charges and advances to other funds, when applicable. Designations of fund balance represent tentative management plans that are subject to change.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results may differ from those estimates.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund and special revenue funds. All annual appropriations lapse at year end.

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Assistant Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2008. The School District does not consider these amendments to be significant.

Excess of Expenditures Over Appropriations

For the year ended June 30, 2008, expenditures exceeded appropriations in support services for school administration by \$45,560, for business by \$105,634, and operations and maintenance by \$70,865. These over expenditures were funded by greater than anticipated revenues in some areas and unanticipated under expenditures in other line items in the General Fund.

Reeths-Puffer Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2008, the School District had no investments.

Interest rate risk. In accordance with its investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the School District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to the three highest classifications issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices.

Concentration of credit risk. The School District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the School District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2008, \$4,639,607 of the School District's bank balance of \$7,848,170 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

Custodial credit risk - investments. The School District does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The School District is not authorized to invest in investments which have this type of risk.

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Capital assets, not being depreciated:				
Land	\$ 474,150	\$ -	\$ -	\$ 474,150
Land improvements	460,020	-	-	460,020
Total capital assets, not being depreciated	934,170	-	-	934,170

Reeths-Puffer Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE D—CAPITAL ASSETS—Continued

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Capital assets, being depreciated:				
Land improvements	\$ -	\$ 47,467	\$ -	\$ 47,467
Buildings and improvements	57,190,997	-	45,000	57,145,997
Equipment	1,612,961	67,429	-	1,680,390
Vehicles	2,596,571	241,991	153,032	2,685,530
Total capital assets, being depreciated	61,400,529	356,887	198,032	61,559,384
Less accumulated depreciation:				
Buildings and improvements	12,379,515	1,012,849	41,310	13,351,054
Equipment	366,494	149,058	-	515,552
Vehicles	1,850,952	163,966	153,032	1,861,886
Total accumulated depreciation	14,596,961	1,325,873	194,342	15,728,492
Total capital assets, being depreciated, net	46,803,568	(968,986)	3,690	45,830,892
Capital assets, net	\$ 47,737,738	\$ (968,986)	\$ 3,690	\$ 46,765,062

Depreciation

Depreciation expense has been charged to functions as follows:

Instruction	\$ 897,177
Support services	346,288
Food services	2,418
Athletics	79,990
	<u>\$ 1,325,873</u>

NOTE E—BOND ISSUANCE COSTS

Bond issuance cost activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Bond issuance costs	\$ 1,211,302	\$ -	\$ -	\$ 1,211,302
Less accumulated amortization	242,907	55,107	-	298,014
Bond issuance costs, net	\$ 968,395	\$ (55,107)	\$ -	\$ 913,288

Amortization

Amortization expense has been charged as unallocated amortization.

Reeths-Puffer Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund Obligations

The composition of interfund balances as of June 30, 2008 is as follows:

Due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General Fund	Other governmental funds	\$ 293,434
1995 Debt Service Fund	Other governmental funds	30,105
2005 Debt Service Fund	Other governmental funds	3,401,983
Other governmental funds	Other governmental funds	33,800
Other governmental funds	General Fund	348,953
Other governmental funds	1995 Debt Service Fund	96,750
Other governmental funds	2005 Debt Service Fund	<u>1,594,622</u>
		<u>\$ 5,799,647</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers

The General Fund transferred \$605,000 to the Athletic Fund to finance operations and \$320,000 to the Equipment and Capital Improvement Fund to help finance school bus purchases and future capital improvements.

NOTE G—SHORT TERM DEBT

The School District issues State of Michigan school aid anticipation notes to provide short-term operating funds. The notes are obligations of the General Fund, which received the note proceeds, and are backed by the full faith, credit and resources of the School District. The short-term debt activity for the year ended June 30, 2008 follows:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2008</u>
State aid anticipation note				
2006/2007 3.68% due August 2007	\$ 4,730,000	\$ -	\$ 4,730,000	\$ -
2007/2008 3.68% due August 2008	<u>-</u>	<u>4,100,000</u>	<u>-</u>	<u>4,100,000</u>
	<u>\$ 4,730,000</u>	<u>\$ 4,100,000</u>	<u>\$ 4,730,000</u>	<u>\$ 4,100,000</u>

Reeths-Puffer Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE H—LONG-TERM OBLIGATIONS

The School District issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include School Bond Loan Fund, School Loan Revolving Fund, and an equipment loan.

Summary of Long-term Obligations

The following is a summary of long-term obligations activity for the School District for the year ended June 30, 2008:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due within one year
Governmental activities:					
Bonds	\$ 63,351,286	\$ 871,614	\$ 2,709,081	\$ 61,513,819	\$ 3,062,609
Plus issuance premium	1,025,134	-	56,335	968,799	56,335
Less issuance discount	(50,344)	-	(2,593)	(47,751)	(2,593)
Less deferred amount on refunding	(792,608)	-	(43,594)	(749,014)	(43,594)
	<u>63,533,468</u>	<u>871,614</u>	<u>2,719,229</u>	<u>61,685,853</u>	<u>3,072,757</u>
Other obligations	12,645,773	679,451	27,974	13,297,250	34,747
Early retirement incentives	394,534	222,500	217,934	399,100	92,600
Compensated absences	209,708	82,619	89,223	203,104	-
	<u>\$ 76,783,483</u>	<u>\$ 1,856,184</u>	<u>\$ 3,054,360</u>	<u>\$ 75,585,307</u>	<u>\$ 3,200,104</u>

In the previous schedule, the additions for bonds represents \$871,614 of accreted interest on capital appreciation bonds. The additions for other obligations includes \$486,205 of accrued interest on the School Bond Loan Fund, \$68,649 of new draws and \$81,684 of accrued interest on the School Loan Revolving Fund.

General obligation bonds consist of the following:

1990 Building General Obligation Bond payable in an annual installment of \$149,691 due May 2009; plus interest at 7.8% payable annually	\$ 149,691
1992 School Building and Site Capital Appreciation Bond payable in annual installments ranging from \$317,056 to \$452,600 due May 2013 to 2022; plus interest ranging from 6.8% to 6.85% payable annually	11,043,865

Reeths-Puffer Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE H—LONG-TERM OBLIGATIONS—Continued

Summary of Long-term Obligations—Continued

Governmental activities:—Continued

General obligation bonds—Continued

1992 Refunding Capital Appreciation Bond payable in annual installments ranging from \$125,100 to \$209,300 due May 2013 to 2017; plus interest at 6.8% payable annually	\$ 2,387,790
2002 School Building and Site General Obligation Bond payable in annual installments ranging from \$475,000 to \$600,000 due May 2009 to 2012; plus interest ranging from 3.75% to 5.5% payable semi-annually	2,175,000
Durant obligations payable in annual installments ranging from \$47,836 to \$225,778 due May 2009 to 2013; including interest at approximately 4.76%. The School District is only obligated to make the annual payments to the extent of annual State of Michigan state school aid appropriations	402,472
2005 Refunding General Obligation Bond payable in annual installments ranging from \$125,000 to \$2,085,000 due May 2009 to 2026; plus interest ranging from 3.75% to 5% payable semi-annually	9,075,000
Plus issuance premium	428,293
Less deferred amount on refunding	(99,525)
2006 Refunding General Obligation Bond payable in annual installments ranging from \$50,000 to \$2,280,000 due May 2009 to 2027; plus interest ranging from 4% to 4.2% payable semi-annually	5,220,000
Less issuance discount	(47,751)
Less deferred amount on refunding	(163,103)
2007 Refunding General Obligation Bond payable in annual installments ranging from \$1,130,000 to \$2,795,000 due May 2009 to 2025; plus interest ranging from 4% to 5% payable semi-annually	31,060,000
Plus issuance premium	540,507
Less deferred amount on refunding	(486,386)
Total bonded debt	61,685,853

Reeths-Puffer Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE H—LONG-TERM OBLIGATIONS—Continued

Summary of Long-term Obligations—Continued

Governmental activities:—Continued

Other obligations

School Bond Loan Fund General Obligation	
Bond payable as soon as annual tax collections exceed annual debt service payment requirements or May 2033, whichever is sooner; interest payable of \$3,154,713 is included at rates ranging from 2.625% to 4.875%	\$ 11,304,600
School Loan Revolving Fund payable no later than May 2033; interest payable of \$184,808 is included at rates ranging from 4.039% to 5.041%	1,874,992
Capital lease obligation payable in monthly installments of \$2,617 including interest of 6.77%; final payment due February 2011	76,484
Capital lease obligation payable in monthly installments of \$596 including interest of 13.481%; final payment due February 2013	24,988
Capital lease obligation payable in monthly installments of \$391 including interest of 13.48%; final payment due February 2013	<u>16,186</u>
Total other obligations	13,297,250
Early retirement incentives	399,100
Compensated absences	<u>203,104</u>
	<u>\$ 75,585,307</u>

The Durant bonds, including interest, were issued in anticipation of payment to the School District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The School District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond. The note receivable on the Statement of Net Assets is for the future appropriations from the State of Michigan to pay the Durant obligations.

Reeths-Puffer Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE H—LONG-TERM OBLIGATIONS—Continued

Summary of Long-term Obligations—Continued

Prior-year Defeasance of Debt

In prior years, the School District defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the School District's financial statements. On June 30, 2008, \$12.335 million of bonds outstanding are considered defeased.

The annual requirements of principal and interest to amortize bonded debt, capital leases, and early retirement incentives outstanding as of June 30, 2008 follows:

Year ending June 30,	Principal	Interest	Total
2009	\$ 3,189,956	\$ 2,600,651	\$ 5,790,607
2010	3,748,369	1,985,874	5,734,243
2011	4,094,775	1,888,938	5,983,713
2012	4,048,643	1,624,020	5,672,663
2013	3,598,846	2,064,369	5,663,215
2014-2018	17,020,674	10,965,726	27,986,400
2019-2023	15,459,313	10,307,809	25,767,122
2024-2028	10,870,000	1,086,459	11,956,459
	<u>\$ 62,030,576</u>	<u>\$ 32,523,846</u>	<u>\$ 94,554,422</u>

NOTE I—EMPLOYEE BENEFITS

Employee Retirement System – Defined Benefit Plan

Plan description – The School District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to or calling:

Office of Retirement Systems
Michigan Public School Employees Retirement System
P.O. Box 30171
Lansing Michigan 48909
1-800-381-5111

Reeths-Puffer Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE I—EMPLOYEE BENEFITS—Continued

Employee Retirement System – Defined Benefit Plan—Continued

Funding policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2008 was 16.72 percent of payroll. The contribution requirements of plan members and the School District are established and may be amended by the MPSERS Board of Trustees. The School District contributions to MPSERS for the year ended June 30, 2008, 2007 and 2006 were approximately \$3,163,000, \$3,059,000 and \$3,172,000, respectively, and were equal to the required contribution for those years.

The School District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other post-employment benefits – Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

Post-Retirement Health Care Benefits

Pursuant to employment contracts, certain employees electing early retirement are provided post-retirement health benefits which vary depending on the plan chosen and their age at retirement. Health care benefits terminate the month the person attains eligibility for full social security benefits, or dies, whichever occurs first; however, no more than ten (10) years of payments will be made. The School District records expenditures for these benefits when premiums are due. Future benefits will be funded out of future revenues. The cost of these benefits for the year ended June 30, 2008 was approximately \$105,000 provided to 79 participants.

Reeths-Puffer Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE J—COMMITMENTS AND CONTINGENCIES

Commitments

- The School District has lease agreements expiring at various dates through February 2013. Expense for the year ended June 30, 2008 was approximately \$64,100. The following is a schedule of future minimum rental payments required under operating leases for School District office equipment.

Year ending June 30,	Amount
2009	\$ 67,838
2010	67,838
2011	65,661
2012	38,383
2013	<u>3,717</u>
	<u>\$ 243,437</u>

- In June 2008, the School District approved the purchase of two school buses for approximately \$149,000. The buses were received in August 2008.

Contingencies –The School District participates in grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The School District has approximately \$13,750 in questioned costs resulting from the Single Audit of its federal programs for the year ending June 30, 2008. Based upon prior experience and audit results, the School District believes it is not likely it will incur significant losses on possible grant disallowances.

NOTE K—OTHER INFORMATION

Economic Dependence – Prior years revision of the State of Michigan (State) school aid formula for local public schools significantly increased State school aid, and the change in property tax laws significantly decreased local property tax revenues. As a result, State school aid represents approximately 76 percent of General Fund revenues.

Reeths-Puffer Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE K—OTHER INFORMATION—Continued

Risk Management – The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2008 or any of the prior three years.

NOTE L—SUBSEQUENT EVENTS

In August 2008, the School District received the proceeds of a \$4,350,000 State of Michigan (State) school aid anticipation note payable. The note payable is not subject to redemption prior to its maturity in August 2009 and bears interest at the rate of 1.7 percent per annum. The School District pledged for payment of the note payable, the amount of State school aid to be received plus the full faith, credit, and resources of the School District.

REQUIRED SUPPLEMENTARY INFORMATION

Reeths-Puffer Schools
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended June 30, 2008

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Local sources	\$ 4,080,339	\$ 4,136,298	\$ 4,029,076	\$ (107,222)
State sources	26,670,837	27,007,052	27,143,472	136,420
Federal sources	2,258,483	2,155,586	2,013,561	(142,025)
Incoming transfers and other transactions	1,868,500	2,113,121	2,311,304	198,183
Total revenues	34,878,159	35,412,057	35,497,413	85,356
EXPENDITURES				
Instruction				
Basic programs	17,069,367	17,373,067	17,305,341	67,726
Added needs	4,326,329	4,424,121	4,339,088	85,033
Support services				
Pupil	2,934,043	2,926,391	2,884,261	42,130
Instructional staff	1,136,589	1,254,793	1,228,123	26,670
General administration	504,345	484,345	455,579	28,766
School administration	1,940,906	1,989,892	2,035,452	(45,560)
Business	702,415	669,001	774,635	(105,634)
Operations and maintenance	2,898,440	2,737,283	2,808,148	(70,865)
Pupil transportation services	1,659,205	1,651,396	1,620,304	31,092
Central	665,010	714,862	745,741	(30,879)
Other	141,115	7,500	355	7,145
Community services	24,505	21,889	24,855	(2,966)
Outgoing transfers and other transactions	692,550	1,110,376	1,102,834	7,542
Total expenditures	34,694,819	35,364,916	35,324,716	40,200
Excess of revenues over expenditures	\$ 183,340	\$ 47,141	172,697	\$ 125,556
Fund balance at July 1, 2007			3,314,326	
Fund balance at June 30, 2008			\$ 3,487,023	

STATISTICAL DATA (unaudited)

Reeths-Puffer Schools
HISTORICAL PROPERTY VALUATIONS
Year ended June 30, 2008
(Unaudited)

<u>Levy Year</u>	<u>Homestead</u>	<u>Non-homestead</u>	<u>Combined taxable value</u>	<u>Increase over prior year</u>
2007	\$ 434,471,461	\$ 205,933,309	\$ 640,404,770	7.8 %
2006	410,472,924	183,504,591	593,977,515	6.2
2005	384,608,266	174,466,456	559,074,722	6.2
2004	365,984,337	160,408,107	526,392,444	5.7
2003	343,649,598	154,448,429	498,098,027	6.1
2002	324,221,451	145,397,608	469,619,059	5.9
2001	296,954,146	146,473,391	443,427,537	6.5
2000	275,336,791	140,907,680	416,244,471	7.5
1999	255,066,599	132,286,453	387,353,052	6.7
1998	241,644,205	122,881,053	364,525,258	4.3

Notes:

6.0 mills levied by the State of Michigan on both Homestead and Non-Homestead taxable value.

18.0 mills local operating millage levied on Non-Homestead taxable value only.

Debt levy on both Homestead and Non-Homestead taxable value.

Source: Muskegon County Equalization Department

Reeths-Puffer Schools
MAJOR TAXPAYERS
Year ended June 30, 2008
(Unaudited)

Taxable values as of June 30, 2008

<u>Taxpayer</u>	<u>Product/service</u>	<u>Taxable value</u>	<u>IFT valuation</u>	<u>Total value</u>
Consumers Energy	Utility	\$ 75,235,162	\$ -	\$ 75,235,162
Bayer Cropscience	Fertilizer	3,511,533	6,723,681	10,235,214
Cedar Fair LP	Amusement park	10,148,981	-	10,148,981
Meijer, Inc.	Retail	5,628,893	-	5,628,893
Michigan Consolidated Gas Company	Utility	4,468,292	-	4,468,292
Nugent Sand Co. Inc.	Sand mining	3,690,423	-	3,690,423
Land Management LLC	Rental real estate	1,945,047	-	1,945,047
B Park Meadows LLC	Mobile home park	1,748,387	-	1,748,387
Westech	Machine shop	1,560,800	-	1,560,800
Bolema Lumber & Supply	Rental real estate	1,445,312	-	1,445,312
		<u>\$ 109,382,830</u>	<u>\$ 6,723,681</u>	<u>\$ 116,106,511</u>

The taxable values of the above taxpayers represent 18 percent of the School District's 2007 taxable value of \$640,404,770.

Reeths-Puffer Schools
SCHOOL DISTRICT TAX RATES
Year ended June 30, 2008
(Unaudited)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Voted	18.0000	18.0000	18.0000	18.0000	18.0000	18.0000	18.0000	18.0000	18.0000	18.0000
Debt	<u>8.3700</u>	<u>8.3700</u>	<u>8.3700</u>	<u>8.3000</u>	<u>8.3700</u>	<u>7.6200</u>	<u>7.6200</u>	<u>7.6200</u>	<u>7.6200</u>	<u>7.6200</u>
TOTAL HOMESTEAD	8.3700	8.3700	8.3700	8.3000	8.3700	7.6200	7.6200	7.6200	7.6200	7.6200
TOTAL NON-HOMESTEAD	26.3700	26.3700	26.3700	26.3000	26.3700	25.6200	25.6200	25.6200	25.6200	25.6200

The School District's 18 voted mills will expire with the December 1, 2015 levy.

Reeths-Puffer Schools
STATE AID SUMMARY—FUNDS FROM STATE SOURCES
(INCLUDING CATEGORICALS)
 Year ended June 30, 2008
 (Unaudited)

Year ended June 30	Amount
2008	\$ 27,142,549
2007	27,180,912
2006	27,254,704
2005	27,011,561
2004	27,189,187
2003	28,818,493
2002	28,526,784
2001	26,384,304
2000	24,863,874
1999	24,231,566

Reeths-Puffer Schools
OPERATING TAX LEVIES AND COLLECTIONS
Year ended June 30, 2008
(Unaudited)

<u>Year ended June 30</u>	<u>Operating tax levy</u>	<u>Collections to March 1 each year</u>		<u>Collections plus funding to June 30 each year</u>	
2008	\$ 3,706,799	\$ 3,551,017	95.78 %	\$ 3,706,799	100.00 %
2007	3,303,083	3,161,616	95.72	3,291,429	99.65
2006	3,140,396	2,853,653	90.87	3,027,863	96.42
2005	2,872,000	2,586,392	90.06	2,672,385	93.05
2004	2,698,346	2,585,346	95.81	2,698,346	100.00
2003	2,631,880	2,434,248	92.49	2,631,880	100.00
2002	2,636,540	2,432,577	92.26	2,636,540	100.00
2001	2,549,057	2,096,547	82.25	2,549,057	100.00
2000	2,381,156	2,225,217	93.45	2,361,004	99.15
1999	2,234,917	2,029,263	90.80	2,212,124	98.98

Reeths-Puffer Schools
LABOR FORCE
Year ended June 30, 2008
(Unaudited)

A breakdown of the number of employees of Reeths-Puffer Schools (including part-time employees) and their affiliation with organized groups is as follows:

<u>Employees</u>	<u>Number</u>	<u>Bargaining unit</u>	<u>Contract expiration</u>
Administrators	23	Non-Affiliated	N/A
Admin. Office Personnel/Technology	9	Non-Affiliated	N/A
Teachers	261	MEA	8/31/2010
Secretarial/Clerical	28	MEA	6/30/2008
Aides/Paraprofessionals	44	MEA	6/30/2008
Maintenance/Custodial	7	MEA	6/30/2008
Transportation	39	MEA	6/30/2008
Food Service	<u>30</u>	MEA	6/30/2008
TOTAL STAFF	<u><u>441</u></u>		

Reeths-Puffer Schools
PENSION FUND
 Year ended June 30, 2008
 (Unaudited)

For the period from October 1, 2007 through September 30, 2008, the School District will pay an amount equal to 16.72 percent of its employees' wages to the Michigan Public School Employees Retirement System (MPERS) which is administered by the State of Michigan. The following were the applicable contribution rates required by law for the periods:

October 1, 2007—September 30, 2008	16.72 %
October 1, 2006—September 30, 2007	17.74
October 1, 2005—September 30, 2006	16.34
October 1, 2004—September 30, 2005	14.87
October 1, 2003—September 30, 2004	12.99
October 1, 2002—September 30, 2003	13.16
October 1, 2001—September 30, 2002	12.17
October 1, 2000—September 30, 2001	12.16
October 1, 1999—September 30, 2000	11.66
October 1, 1998—September 30, 1999	10.77

These contributions are required by law. The School District's contributions for the past ten years are shown below. The School District does not have an unfunded accrued liability under MPERS.

Year ending <u>June 30</u>	Paid to <u>pension fund</u>
2008	\$ 3,280,456
2007	3,405,602
2006	3,172,209
2005	2,956,860
2004	2,663,954
2003	2,837,317
2002	2,635,914
2001	2,509,782
2000	2,243,546
1999	1,989,302

Effective January 1, 1987, members of MPERS may irrevocably elect to contribute a percentage of their gross wages on a tax deferred basis to a member investment plan (MIP) which qualifies them for additional benefits. All employees hired after January 1, 1990 will contribute to the plan at a graduated rate of their gross wages. If a member leaves MPERS service before a retirement benefit has vested, the member's accumulated contributions to MIP, plus interest, if any, are refundable.

Reeths-Puffer Schools
DEBT STATEMENT—DIRECT DEBT
Year ended June 30, 2008
(Unaudited)

<u>Dated</u>	<u>Purpose</u>	<u>Type</u>	<u>Interest spread</u>	<u>Maturities</u>	<u>Amount outstanding</u>
03/01/90	Building & Site	General Obligation-Unlimited Tax	7.8 %	05/01/08-09	\$ 149,692
06/18/92	Building & Site	General Obligation-Unlimited Tax	6.8-6.85	05/01/13-22	3,804,969
06/18/92	Refunding	General Obligation-Unlimited Tax	6.8	05/01/13-17	826,235
12/04/01	Building & Site	General Obligation-Unlimited Tax	3.55-5.5	05/01/08-12	2,175,000
02/24/05	Refunding	General Obligation-Unlimited Tax	3-5	05/01/08-26	9,075,000
11/22/06	Refunding	General Obligation-Unlimited Tax	4-4.2	05/01/08-27	5,220,000
02/08/07	Refunding	General Obligation-Unlimited Tax	4-5	05/01/08-25	<u>31,060,000</u>
NET DIRECT DEBT					<u>\$ 52,310,896</u>

Reeths-Puffer Schools
SCHOOL BOND LOAN FUND AND SCHOOL LOAN REVOLVING FUND PROGRAMS
Year ended June 30, 2008
(Unaudited)

As of June 30, 2008, the School District has a School Bond Loan Fund balance of \$11,304,600 and a School Loan Revolving Fund balance of \$1,874,992.

The Bonds are fully qualified as of the date of delivery pursuant to Act 108 of the Public Acts of Michigan, 1961, as amended, enacted pursuant to Article IX, Section 16, of the Michigan Constitution of 1963. Under the terms of said constitutional and statutory provisions, if for any reason, the School District will be or is unable to pay the principal and interest on the Bonds when due, the School District shall borrow, and the State of Michigan (State) shall lend to it from the School Bond Loan Fund or School Loan Revolving Fund established by the State, an amount sufficient to enable the School District to make payment. Article IX, Section 16 of the Michigan Constitution, as implemented by Act 112 of the Public Acts of Michigan, 1961, as amended, authorizes the State, without approval of its electors, to borrow from time to time such amounts as shall be required, pledge the State's full faith and credit and issue its notes or bonds therefore, for the purpose of making loans to school districts as provided amounts as shall be required, pledge the State's full faith and credit and issue its notes or bonds therefore, for the purpose of making loans to school districts as provided under such section. Loans to school districts for such purposes are made from the proceeds of such State borrowing.

Complete financial statements of all of the State's funds as included in the State's Comprehensive Annual Financial Report (CAFR) prepared by the State's Department of Management and Budget are available upon request from the Department of Management and Budget, Office of Financial Management, P.O. Box 30026, Lansing, Michigan 48909, telephone (517) 373-1011. The State has agreed to file its CAFR with the Nationally Recognized Securities Information Repositories and the State Information Depository (as described in Rule 15c2-12(b)(5) of the Securities Exchange Commission) annually, so long as any bonds qualified for participation in the School Bond Loan Fund remain outstanding.

Reeths-Puffer Schools
SCHOOL ENROLLMENT
 Year ended June 30, 2008
 (Unaudited)

Historical enrollment for the School District is as follows:

<u>School year</u>	<u>Enrollment</u>	<u>School year</u>	<u>Enrollment</u>
2007/08	4,129	2002/03	4,509
2006/07	4,205	2001/02	4,532
2005/06	4,239	2000/01	4,583
2004/05	4,271	1999/00	4,575
2003/04	4,358	1998/99	4,586

Enrollment by grades—2007/08 is as follows:

Kindergarten	324	Seventh	296
First	310	Eighth	333
Second	276	Ninth	360
Third	304	Tenth	316
Fourth	278	Eleventh	363
Fifth	308	Twelfth	305
Sixth	286	Special Ed.	<u>70</u>
		TOTAL	<u>4,129</u>

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

October 23, 2008

Board of Education and
Stephen E. Cousins
Reeths-Puffer Schools
Muskegon, Michigan

In planning and performing our audit of the financial statements of Reeths-Puffer Schools as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Reeths-Puffer Schools' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified the attached deficiencies in internal control that we consider to be significant deficiencies.

This communication is intended solely for the information and use of the Board of Education, management, others within the Organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



SIGNIFICANT DEFICIENCIES

Capital Assets

Recommendation 1: Capital assets acquired utilizing capital lease agreements should be recorded at the time of acquisition.

During our detailed tests, we noted that capital assets were acquired utilizing capital lease agreements. The capital asset expenditures and associated other financial sources were not timely recorded in the general ledger.

The timely recoding of capital lease obligations would reduce the opportunity for a failure to record such transactions and would increase the accuracy of interim financial statements.

Agency Funds

Recommendation 2: The adequacy of internal controls over agency fund accounts should be reviewed.

The School District serves as a fiduciary for the accounting and maintenance of assets of the various student activity funds, with limited segregation of duties and limited oversight by School District administration.

Internal controls surrounding agency funds would be improved if:

1. Agency fund cash receipts would have proper documentation to support each transaction.
2. Agency fund cash disbursements would be approved by authorized individuals prior to payment.
3. Agency fund bank statements would be opened and reviewed by someone independent of the cash receipts, cash disbursements, check writing and account reconciliation responsibilities.
4. The review of bank statements and reconciliations would be documented.

Federal Award Programs

Recommendation 3: Monthly National School Lunch daily sales reports should be reviewed for documented explanations for potential over-claims.

During our audit of National School Lunch reports, we noted that several daily sales reports identified potential over-claims with no documentation of whether the matters were reviewed and resolved. Of the potential over-claims noted, one report was immaterially misstated.

The documentation of the review and resolution of potential over-claims would enable reviewers of daily sales reports to reduce the possibility of over-claims.

Other

Recommendation 4: The School District should establish appropriate oversight with respect to the operation of its affiliated organizations.

During our review of procedures, we noted that the School District maintains limited oversight of its 501(c)(3) organization, Reeths-Puffer Education, Inc., with the School District's activities limited to depositing cash receipts and preparing cash disbursements as directed by participating groups. Other affiliated supporting organizations receive limited oversight by the School District.

The School District should determine what, if any, are its oversight responsibilities with respect to affiliated organizations to ensure compliance with associated federal requirements in regards to the 501(c)(3) organization and other affiliated supporting organizations in relation to School District policies.

Reeths-Puffer Schools
**SINGLE AUDIT OF FEDERAL
FINANCIAL ASSISTANCE PROGRAMS**

Financial Report and
Independent Auditors' Reports

June 30, 2008

CONTENTS

FINANCIAL REPORT AND INDEPENDENT AUDITORS' REPORTS

INTERNAL CONTROL AND COMPLIANCE REPORTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	3
---	---

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133.....	5
---	---

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	7
---	---

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	10
--	----

SCHEDULE OF FINDINGS AND RESPONSES	11
--	----

CLIENT DOCUMENTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	16
--	----

CORRECTIVE ACTION PLAN	18
------------------------------	----

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

October 23, 2008

Board of Education
Reeths-Puffer Schools
Muskegon, Michigan

We have audited the financial statements of Reeths-Puffer Schools as of and for the year ended June 30, 2008 and have issued our report thereon dated October 23, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Reeths-Puffer Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Reeths-Puffer Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Reeths-Puffer Schools' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses, as Findings 1 - 4, to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Board of Education
October 23, 2008
Page 2

Compliance

As part of obtaining reasonable assurance about whether Reeths-Puffer Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Reeths-Puffer Schools' responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit Reeths-Puffer Schools' responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLC

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

October 23, 2008

Board of Education
Reeths-Puffer Schools
Muskegon, Michigan

Compliance

We have audited the compliance of Reeths-Puffer Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Reeths-Puffer Schools' major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Responses. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Reeths-Puffer Schools' management. Our responsibility is to express an opinion on Reeths-Puffer Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Reeths-Puffer Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Reeths-Puffer Schools' compliance with those requirements.

In our opinion, Reeths-Puffer Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described as Finding 5 in the accompanying Schedule of Findings and Responses.

Internal Control Over Compliance

The management of Reeths-Puffer Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Reeths-Puffer Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Reeths-Puffer Schools' internal control over compliance.

Board of Education
October 23, 2008
Page 2

Internal Control Over Compliance—Continued

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in Parts B and C in the accompanying Schedule of Findings and Responses as Findings 3 and 5 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying Schedule of Findings and Responses to be material weaknesses.

Reeths-Puffer Schools' response to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit Reeths-Puffer Schools' response and, accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Reeths-Puffer Schools as of and for the year ended June 30, 2008 and have issued our report thereon dated October 23, 2008. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature of Brickley DeLong, PLC in black ink.

Reeths-Puffer Schools
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2008

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2007	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2008	Notes
					Prior year	Current year	Total		
<i>U.S. Department of Education</i>									
Direct program:									
Indian Education Title IV, Part A	84.060A								
S060A060736		\$ 24,850	\$ 8,850	\$ 8,850	\$ 24,850	\$ -	\$ 24,850	\$ -	
S060A070013		21,529	-	21,529	-	21,529	21,529	-	
Total direct programs		46,379	8,850	30,379	24,850	21,529	46,379	-	
Passed through Michigan									
Department of Education:									
Title I, Part A	84.010								
061530 0607		45,415	7,115	7,115	45,415	-	45,415	-	
071530 0607		283,805	56,024	57,729	268,281	15,524	283,805	13,819	
081530 0708		338,635	-	250,454	-	300,089	300,089	49,635	
		667,855	63,139	315,298	313,696	315,613	629,309	63,454	
Title V, Part A	84.298								
080250 0708		850	-	450	-	850	850	400	
Title II, Part D	84.318								
084290 0708		3,170	-	3,170	-	3,170	3,170	-	
Title II, Part A	84.367								
070520 0607		162,271	17,066	17,066	162,271	-	162,271	-	
080520 0708		164,158	-	164,158	-	164,158	164,158	-	
		326,429	17,066	181,224	162,271	164,158	326,429	-	
Total passed through Michigan Department of Education		998,304	80,205	500,142	475,967	483,791	959,758	63,854	

Reeths-Puffer Schools
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended June 30, 2008

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2007	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2008	Notes
					Prior year	Current year	Total		
<i>U.S. Department of Education—Continued</i>									
Passed through Muskegon Area Intermediate School District:									
Special Education Cluster									
I.D.E.A. 101-476	84.027								
060450		\$ 1,502,247	\$ 84,737	\$ 84,737	\$ 1,502,247	\$ -	\$ 1,502,247	\$ -	
070450		1,511,165	316,576	508,617	1,283,281	227,884	1,511,165	35,843	
080450		1,301,309	-	872,053	-	1,137,687	1,137,687	265,634	
		4,314,721	401,313	1,465,407	2,785,528	1,365,571	4,151,099	301,477	
I.D.E.A. 101-476	84.173								
060460		100,551	1,341	1,341	98,833	-	98,833	-	
070460		97,036	20,971	24,473	93,534	3,502	97,036	-	
080460		99,111	-	61,967	-	92,396	92,396	30,429	
		296,698	22,312	87,781	192,367	95,898	288,265	30,429	
Total Special Education Cluster		4,611,419	423,625	1,553,188	2,977,895	1,461,469	4,439,364	331,906	
Safe and Drug Free Schools and Communities	84.186								
82860 0708		11,833	-	11,833	-	4,734	4,734	(7,099)	
Total passed through Muskegon Area Intermediate School District		4,623,252	423,625	1,565,021	2,977,895	1,466,203	4,444,098	324,807	
Total U.S. Department of Education		5,667,935	512,680	2,095,542	3,478,712	1,971,523	5,450,235	388,661	
<i>U.S. Department of Agriculture</i>									
Passed through Michigan Department of Education:									
Entitlement commodities	10.550	73,089	-	73,089	-	73,089	73,089	-	
Bonus commodities		463	-	463	-	463	463	-	
		73,552	-	73,552	-	73,552	73,552	-	

Reeths-Puffer Schools
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended June 30, 2008

Federal grantor/pass-through grantor/program title	Federal CFDA number	Entitlement program or award amount	Accrued (deferred) revenue July 1, 2007	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2008	Notes
					Prior year	Current year	Total		
<i>U.S. Department of Agriculture—Continued</i>									
Child Nutrition Cluster									
071970 Lunch—Breakfast	10.553	\$ 92,658	\$ -	\$ 9,211	\$ 83,447	\$ 9,211	\$ 92,658	\$ -	
081970 Lunch—Breakfast		93,314	-	93,314	-	93,314	93,314	-	
		185,972	-	102,525	83,447	102,525	185,972	-	
071950 All lunches	10.555	78,137	-	9,213	68,924	9,213	78,137	-	
081950 All lunches		68,252	-	68,252	-	68,252	68,252	-	
071960 Free and reduced		349,109	-	44,594	304,515	44,594	349,109	-	
081960 Free and reduced		333,614	-	333,614	-	333,614	333,614	-	
		829,112	-	455,673	373,439	455,673	829,112	-	
Total Child Nutrition Cluster		1,015,084	-	558,198	456,886	558,198	1,015,084	-	
Total passed through Michigan Department of Education		1,088,636	-	631,750	456,886	631,750	1,088,636	-	
Passed through County of Muskegon: Schools and Roads	10.665	129	-	129	-	129	129	-	
Total U.S. Department of Agriculture		1,088,765	-	631,879	456,886	631,879	1,088,765	-	
<i>U.S. Department of Health and Human Services</i>									
Passed through Muskegon Area Intermediate School District:									
Medical Assistance Program Title XIX 393	93.778	38,073	-	38,073	-	38,073	38,073	-	
<i>Corporation for National and Community Service</i>									
Passed through North Muskegon Public Schools: AmeriCorps Learn and Serve 2005-2006	94.004	21,374	(3,836)	-	17,538	3,836	21,374	-	3
TOTAL FEDERAL ASSISTANCE		\$ 6,816,147	\$ 508,844	\$ 2,765,494	\$ 3,953,136	\$ 2,645,311	\$ 6,598,447	\$ 388,661	

Reeths-Puffer Schools
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2008

1. Please see the financial statement footnotes for the significant accounting policies used in preparing this schedule.
2. Management has utilized the Grants Section Auditors Report (Form R7120) and CMS Grant Auditor Report (GAR) in preparing the Schedule of Expenditures of Federal Awards.
3. Deferred revenue as of July 1, 2007 was understated by \$3,836.
4. Reconciliation of revenues from federal sources per governmental funds financial statements and expenditures per single audit report Schedule of Expenditures of Federal Awards.

Revenues from federal sources per June 30, 2008

Governmental funds financial statements

General Fund	\$ 2,013,561	
Other governmental funds (includes Food Service Fund)	<u>631,750</u>	\$ <u>2,645,311</u>

Expenditures per single audit report

Schedule of Expenditures of Federal Awards		\$ <u>2,645,311</u>
--	--	---------------------

Reeths-Puffer Schools
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2008

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Reeths-Puffer Schools.
2. **Four (4)** significant deficiencies disclosed during the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and are reported in Part B of this schedule. These significant deficiencies are not reported as material weaknesses.
3. There were **no** instances of noncompliance material to the financial statements of Reeths-Puffer Schools noted during the audit and as reported in Part B of this schedule.
4. **One (1)** significant deficiency disclosed during the audit of the major federal award programs is reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and is reported in Parts B and C of this schedule. The significant deficiency is not reported as a material weakness.
5. The auditors' report on compliance for the major federal award programs for Reeths-Puffer Schools expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested as major programs were:

<u>Name</u>	<u>CFDA Number</u>
<i>U.S. Department of Agriculture</i> Child Nutrition Cluster	10.553 and 10.555
<i>U.S. Department of Education</i> Title I, Part A Special Education Cluster	84.010 84.027 and 84.173

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Reeths-Puffer Schools was not determined to be a low-risk auditee.

Reeths-Puffer Schools
SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED
Year ended June 30, 2008

B. FINDINGS RELATING TO THE AUDIT OF THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

COMPLIANCE

There were *no* compliance findings in relation to the financial statements.

SIGNIFICANT DEFICIENCIES

Fiscal 2008 Finding No. 1: Procedures for Recording Capital Leases

Criteria: Capital lease agreements should be recorded in the accounting records timely.

Condition: Equipment acquired utilizing capital lease agreements were not timely recorded in the accounting records.

Cause: The general ledger accounting function was not advised as to the acquisitions and the requirement to record such transactions.

Effect: The capital asset expenditures and associated other financing sources were not timely recorded in the general ledger.

Recommendation: Capital assets acquired utilizing a capital lease agreement should be recorded at the time of the acquisition.

School District Response: Capital lease arrangements will be recorded in the accounting records on a timely basis. Staff will be trained in the recognition of and accounting for capital leases.

Fiscal 2008 Finding No. 2: Internal Controls Over Agency Funds

Criteria: Oversight and segregation of duties should be maintained by the administration over agency fund accounts.

Condition: The School District administration maintains limited managerial oversight of the various student activity agency funds, with limited segregation of duties. However, administrative support staff performs certain cash receipts, cash disbursement and bookkeeping functions.

Cause: Building-level administrative support staff has maintained these responsibilities over the years.

Effect: Errors or the misappropriation of agency funds could occur and not be timely detected.

Recommendation: The adequacy of internal controls over agency funds should be reviewed.

School District Response: Staff will review adequacy of internal controls over agency funds. Building-level staff will be trained in the internal controls. Periodic audits of agency funds will be performed by District level staff.

Reeths-Puffer Schools
SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED
Year ended June 30, 2008

B. FINDINGS RELATING TO THE AUDIT OF THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

SIGNIFICANT DEFICIENCIES—Continued

Fiscal 2008 Finding No. 3: National School Lunch Daily Sales Report Procedures

Criteria: Daily sales report variances should be monitored with matters noted being timely resolved.

Condition: We noted several National School Lunch daily sales reports identified potential over-claims, with no documentation that such matters were reviewed and satisfactorily disposed. Further, of the potential over-claims noted, one of such reports was immaterially misstated.

Cause: The School District had not established procedures for documenting the monitoring and resolving of report variances.

Effect: Although the matters noted did not result in the material misstatement of daily sales reports, conditions were present that material misstatements could occur.

Recommendation: Monthly National School Lunch daily sales reports should be reviewed for reasonability with documented explanations of potential over-claims.

School District Response: Monthly National School Lunch daily sales reports should be reviewed for reasonability with documented explanations of potential over-claims. Procedures will be developed to investigate potential over-claims as identified by the department's point of sale computer program. The food service staff will initial the reports indicating their review.

Fiscal 2008 Finding No. 4: Oversight of Affiliated Organizations

Criteria: Affiliated organizations should received adequate oversight of their operations to ensure compliance with regulations and school policies.

Condition: The School District maintains limited oversight of groups participating in its affiliated 501(c)(3) organizations and with respect to its affiliated supporting organizations.

Cause: Over the years, the School District has not established significant oversight of affiliated organizations and groups.

Effect: Situations or matters could arise which could be perceived as contrary to School District policy without being timely identified.

Recommendation: The School District should establish appropriate oversight with respect to the operation of its affiliated organizations.

School District Response: The District will review its policies regarding the 501(c)(3) organizations to ensure appropriate oversight is established in regards to the operations of its affiliated organization. The Finance Department will review the affiliate's internal controls and processes to ensure District's policies are being adhered to.

Reeths-Puffer Schools
SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED
Year ended June 30, 2008

C. FINDINGS RELATING TO THE MAJOR FEDERAL AWARD PROGRAMS AUDIT, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH OMB CIRCULAR A-133

COMPLIANCE

U.S. Department of Agriculture

Fiscal 2008 Finding No. 5: Child Nutrition Cluster

Pass-through entity: Michigan Department of Education

CFDA: 10.553 and 10.555

Award Numbers: 081970, 081950, 081960

Award Year End: June 30, 2008

Specific Requirement: Eligibility

Criteria: 7 CFR Part 245 requires School Districts to determine eligibility for free and reduced meals based upon family income standards.

Condition: One student of forty students selected for eligibility testing received reduced lunch, for which the student should have been full pay based upon the income criteria.

Cause: The head cashier entered the income information as bi-monthly rather than semi-monthly resulting in a lower annual income calculation.

Questioned Costs: \$230, which represents the potential number of days served multiplied by the total possible reimbursement rate for a day extrapolated across the reduced application population.

Context: The exception was one of forty selected and tested from a population of all free and reduced meal applications.

Effect: The School District was reimbursed for the reduced lunch rate of \$1.84 for 125 days.

Recommendation: The School District should establish procedures to ensure all lunch applications are entered properly into the computer system, which calculates the eligibility status, and to provide review of such input by an individual independent of the data entry process.

School District Response: In response to the condition cited, the District tested an additional 77 applications and found no additional errors. To prevent this error in the future, the Head Cashier has been trained as to the difference between semi-monthly and bi-monthly. In addition, 10% of all approved free and reduced applications will be randomly reviewed by the Food Service Supervisor. If an error is found, the sampling will be expanded to 20%. Should an error be found in the expanded sample, 100% of all approved applications will be reviewed for accuracy.

SIGNIFICANT DEFICIENCIES

See Finding No. 3 in part B above and Finding No. 5 in Part C above.

CLIENT DOCUMENTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

October 23, 2008

Michigan Department of Education
Lansing, Michigan

Reeths-Puffer Schools respectfully submits the following summary of the current status of prior audit findings contained in the single audit report for the year ended June 30, 2007 dated August 27, 2007.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

COMPLIANCE

U.S. Department of Education

Fiscal 2007 Finding No. 1: Title I, Part A

Pass-through entity: Michigan Department of Education

CFDA: 84.010

Award Numbers: 061530 0506, 061530 0607 and 071530 0607

Award Year Ends: September 30, 2006, June 30, 2007 and September 30, 2007

Specific Requirement: Allowable Costs/Cost Principles

Condition: Not all employees working 100% in Title I have required semi-annual certifications. Employees partially funded by Title I did not have adequate supporting documentation at least monthly. Amounts charged to payroll did not always reflect the percentage of time charged to the Title I program on a timely basis.

Recommendation: The School District should establish procedures to ensure compliance with Title I time certification requirements and timely updating of payroll allocations.

Current Status: The recommendation was implemented during the year ended June 30, 2008. **No** similar finding was noted during the single audit for the year ended June 30, 2008.

B. FINDINGS—FINANCIAL STATEMENT AUDIT—Continued

SIGNIFICANT DEFICIENCIES

Fiscal 2007 Finding No. 2: Procedures for Title I, Part A Allowable Costs

Condition: As noted in Fiscal 2007 Finding No. 1, the School District did not comply with Title I, Part A time certification and payroll allocation requirements.

Recommendation: As also recommended in Fiscal 2007 Finding No. 1, the School District should establish procedures to ensure compliance with Title I time certification requirements and timely updating of payroll allocations.

Current Status: The recommendation was implemented during the year ended June 30, 2008. *No* similar finding was noted during the single audit for the year ended June 30, 2008.

C. FINDINGS RELATING TO THE MAJOR FEDERAL AWARD PROGRAMS AUDIT, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH OMB CIRCULAR A-133

COMPLIANCE

See Finding 1 in Part B above.

SIGNIFICANT DEFICIENCIES

See Finding 2 in Part B above.

Sincerely,



Stephen E. Cousins
Superintendent

CORRECTIVE ACTION PLAN

October 23, 2008

Michigan Department of Education
Lansing, Michigan

Reeths-Puffer Schools respectfully submits the following Corrective Action Plan for the year ended June 30, 2008.

Name and address of independent public accounting firm:

Brickley DeLong, PLC
P.O. Box 999
Muskegon, Michigan 49443

Audit period: June 30, 2008

The findings from the Schedule of Findings and Responses for the year ended June 30, 2008 are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

COMPLIANCE

There were *no* compliance findings in relation to the financial statements.

SIGNIFICANT DEFICIENCIES

Fiscal 2008 Finding No. 1: Procedures for Recording Capital Leases

Recommendation: Capital assets acquired utilizing a capital lease agreement should be recorded at the time of the acquisition.

Action Taken: Capital lease arrangements will be recorded in the accounting records on a timely basis. Staff will be trained in the recognition of and accounting for capital leases.

Fiscal 2008 Finding No. 2: Internal Controls Over Agency Funds

Recommendation: The adequacy of internal controls over agency funds should be reviewed.

Action Taken: Staff will review adequacy of internal controls over agency funds. Building-level staff will be trained in the internal controls. Periodic audits of agency funds will be performed by District level staff.

B. FINDINGS—FINANCIAL STATEMENT AUDIT—Continued

SIGNIFICANT DEFICIENCIES—Continued

Fiscal 2008 Finding No. 3: National School Lunch Daily Sales Report Procedures

Recommendation: Monthly National School Lunch daily sales reports should be reviewed for reasonability with documented explanations of potential over-claims.

Action Taken: Monthly National School Lunch daily sales reports should be reviewed for reasonability with documented explanations of potential over-claims. Procedures will be developed to investigate potential over-claims as identified by the department's point of sale computer program. The food service staff will initial the reports indicating their review.

Fiscal 2008 Finding No. 4: Oversight of Affiliated Organizations

Recommendation: The School District should establish appropriate oversight with respect to the operation of its affiliated organizations.

Action Taken: The District will review its policies regarding the 501(c)(3) organizations to ensure appropriate oversight is established in regards to the operations of its affiliated organization. The Finance Department will review the affiliate's internal controls and processes to ensure District's policies are being adhered to.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

COMPLIANCE

U.S. Department of Agriculture

Fiscal 2008 Finding No. 5: Child Nutrition Cluster

Pass-through entity: Michigan Department of Education

CFDA: 10.553 and 10.555

Specific Requirement: Eligibility

Recommendation: The School District should establish procedures to ensure all lunch applications are entered properly into the computer system, which calculates eligibility status, and to provide review of such input by an appropriate individual independent of the data entry process.

Action Taken: In response to the condition cited, the District tested an additional 77 applications and found no additional errors. To prevent this error in the future, the Head Cashier has been trained as to the difference between semi-monthly and bi-monthly. In addition, 10% of all approved free and reduced applications will be randomly reviewed by the Food Service Supervisor. If an error is found, the sampling will be expanded to 20%. Should an error be found in the expanded sample, 100% of all approved applications will be reviewed for accuracy.

Michigan Department of Education
October 23, 2008
Page 3

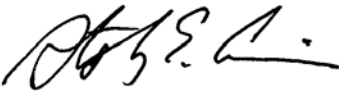
C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS—Continued

SIGNIFICANT DEFICIENCIES

See Finding No. 3 in part B above and Finding No. 5 in Part C above.

If the Michigan Department of Education has questions regarding this plan, please call Stephen E. Cousins at (231) 744-4736.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen E. Cousins", with a stylized flourish at the end.

Stephen E. Cousins
Superintendent